

3rd June 2019

MCA Revenue Budget, Capital Programme and Treasury Outturn Report

Purpose of Report

This report provides the outturn position for the revenue budgets and capital programme of the Sheffield City Region (SCR) Mayoral Combined Authority (MCA) for the financial year 2018/19. This position will help to inform the process of business planning for 2020/21 and beyond.

Thematic Priority

All.

Freedom of Information and Schedule 12A of the Local Government Act 1972

The paper will be available under the Combined Authority Publication Scheme.

Recommendations

1. SCR MCA are asked to consider and note the 2018/19 outturn position (which is subject to external audit) for the Mayoral Combined Authority's revenue budget and capital programme, including the reserves statement, as set out in section 2 and Appendices 1-6.
2. SCR MCA are asked to approve in principle the proposal at paragraph 2.11 supported by the LEP Board to reinvest some or all of the income accrued from LGF to support resourcing the development of business cases, subject to further work being undertaken to develop the proposition in detail
3. SCR MCA are asked to consider and approve the revenue programme variations summarised in paragraph 2.9.
4. SCR MCA are asked to note that the level and accounting for reserves (including the PTE revaluation reserve) will be reviewed as part of the MTFS refresh
5. SCR MCA are asked to approve the carry forward of £10.6m of underspend on the South Yorkshire transport capital programme.
6. SCR MCA are asked to approve the continuation of the Key Account Manager revenue programme, and to delegate authority to the SCR Head of Paid Service and Section 73 Officer to extend the contract of the Investment Manager and to accept the grant, as noted in paragraph 2.10.

1. Introduction

- 1.1 The Mayoral Combined Authority operates a number of revenue budgets, as well as capital and revenue programmes. This paper summarises the full-year outturn position of those budgets and programmes for the financial year 2018/19.
- 1.2 This paper also includes a number of budget variation requests for approval.
- 1.3 This paper does not include the latest position with regard to Local Growth Fund (LGF) capital programme. Further detail is contained in a separate paper on LGF outturn presented alongside this report.

2. Proposal and justification

- 2.1 The report is structured as follows:

- Revenue budgets and programmes;
- South Yorkshire Transport Capital programmes;
- Reserves statements;
- Budget variation requests;
- Key Account Manager programme;
- Business Case Development Fund, and;
- Treasury outturn.

Due to statutory requirements, the report will also differentiate between financial performance relating to South Yorkshire transport activity and that relating to MCA/LEP economic development activity.

2.2 MCA/LEP Revenue Budget

The revenue budget is deployed to cover the day-to-day activity of running the MCA and LEP in its delivery of the Strategic Economic Plan (SEP). Typical costs include staffing, accommodation, business support, international trade and investment marketing and the commissioning of specific pieces of work as part of implementing the SEP and developing the Local Industrial Strategy and work towards the Shared Prosperity Fund (SPF).

2.3 The 2018/19 final outturn position on the core activities funded through the revenue budget is shown in the table below.

	Budget	Outturn	Variance	Variance
	£'000	£'000	£'000	%
Net Revenue Expenditure	£7,586	£7,661	£75	1%
Non-specific Income	-£7,586	-£8,179	-£593	8%
	£0	-£518	-£518	

2.4 Actual income exceeded budget by 8%, driven primarily by higher than anticipated investment income resulting from the bulk of 2018/19 LGF spend taking place at the tail end of Q4. There was a minor adverse variance of 1% on net expenditure. Further information on the revenue budget's final outturn position can be found in **Appendix 1**.

The £518k underspend has been returned to the MCA/LEP General Reserve, thus increasing the balance to £1.768m at 31 March 2019 (as shown in **Appendix 5**). An option for how the 2018/19 underspend could be utilised is set out in paragraph 2.11.

2.5 MCA/LEP Revenue Programmes

The spend across all 17 active revenue programmes in 2018/19 reached £10.1m, £2.7m below budget. In the vast majority of cases, there is slippage on programme delivery, the reasons for which are set out in the narrative below the table in **Appendix 2**.

The 2019/20 revenue programmes budget approved by the MCA at its meeting on 25 March

2019 of £9.257m included certain assumptions about the profiling of spend in 2018/19 and 2019/20 for multi-year schemes. In some cases, the profile has altered where actual outturn in 2018/19 differs from that profiled leading to changes to the amount of resources carried forward and available for 2019/20 activity. The overall effect of these changes is to increase the 2019/20 revenue programmes budget from that previously agreed of £9.257m by £69k to £9.326m.

2.6 Approval is sought for these adjustments to allow programme activity to continue in 2019/20.
South Yorkshire Transport Revenue Budget

The South Yorkshire Transport budget is used to fulfil the role the MCA inherited from the former ITA as local transport authority for South Yorkshire. It principally comprises the revenue grant payable to SYPTTE to meet operational costs and debt financing costs on capital investment funded by borrowing.

The South Yorkshire transport revenue budget set at the start of the year of £60.886m exceeded the transport levy of £55.759m with the shortfall of £5.127m being met through the planned use of the levy reduction reserve.

The outturn for the year was £59.949m, a net underspend of £937k (£654k MCA and £283k SYPTTE). As a consequence, the use of reserves was £937k less than planned.

See **Appendix 3** for further details.

2.7 South Yorkshire Transport Capital Programme

The approved South Yorkshire transport capital programme for the year (including slippage from 2017/18) was £52.346m including £24.259m SYPTE and £23.094m managed centrally through the LTP team (Highways Capital Maintenance/National Pothole Funding or HCM and the Integrated Transport Block or ITB).

Overall, there was an underspend for the year of £10.600m.

There are no restrictions on the carry forward of the sources of funding, primarily DfT and borrowing, relating to this underspend. Member approval is therefore sought for these resources to be carried forward to increase the 2019/20 programme already approved.

Further detail is contained in **Appendix 4**.

2.8 Reserves statements

The MCA group controls a number of reserves, most of which are earmarked for specific purposes, whilst others are ring-fenced to particular activity, either by statute or in accordance with funding conditions.

A reserves strategy for the MCA / LEP revenue budget was approved by the MCA on 25 March 2019 to provide financial resilience against the risks attached to the MCA / LEP's main sources of income. The strategy was based on the MCA setting aside £844k of 2017/18 surplus business rates into an earmarked resilience reserve, and transferring any underspends to the General Fund reserve, resulting in a total forecast balance on reserves linked to LEP activity at the end of 2018/19 of £10.6m.

As at 31 March 2019 balances on reserves linked to LEP activity were around £6.1m, £4.5m less than anticipated. The difference relates to the Skills Bank reserve (£3.1m) and the Properties reserve (£1.4m), further details of which can be found in **Appendix 5**.

A mayoral election reserve of £1.355m was set aside as part of the 2018/19 budget. This was more than sufficient to meet costs incurred in 2018/19 since the local election costs incurred by the 4 South Yorkshire Districts remained within budget, giving rise to a surplus balance of £233k.

The reserves position for South Yorkshire transport is set in the context of its long term financial plan. The plan is reliant on using the levy reduction reserve and other revenue reserves to fund the shortfall between the base budget and transport levy until there is convergence between the two currently around 2024/25. The reserves held at outturn of £47.6m are considered sufficient, at this stage, to meet this objective and the other long term liabilities of the MCA/ SYPTE.

The reserves strategy and adequacy of reserves held will be re-assessed as part of the refresh of the medium term financial strategy (MTFS) which is currently scheduled to be brought to the MCA on 29 July.

2.9 Budget variation requests

MCA/LEP Revenue Programmes

- EU Exit Funding – carry forward of £91k revenue grant received late 2018/19 plus second tranche of £91k received early 2019/20. Total allocation of £182k to be used in 2019/20 to support local authorities prepare for EU exit
- Transforming Cities Fund – carry forward of £50k revenue grant received towards the end of 2018/19 to support the preparation of the Transforming Cities Bid in 2019/20
- Skills Advisory Panel – carry forward of £75k revenue grant received late 2018/19 for SCR to act as lead organisation in the formation of a skills advisory panel
- Supporting Homeless Veterans Fund - £91k allocation to be used in 2019/20 to enable work within the SCR to prevent and relieve veterans who are, or at risk of becoming, homeless
- HS 2 – increase the 2019/20 budget by £55k to £353k as a consequence of slippage
- OPE – increase the 2019/20 budget by £88k to £418k as a consequence of slippage
- Mayoral Capacity Fund – reduce the 2019/20 budget by £74k to £1.302m as a result of spend being accelerated in 2018/19

2.10 Key Account Management revenue programme

DIT have issued a grant offer of £101k for the 2019/20 financial year to extend the Key

Account Management programme to provide dedicated support to help foreign owned companies achieve their growth potential. The offer is in line with the budget of £102k approved by the MCA in March 2019. Approval is therefore sought from the MCA to accept the grant in principle, and for authority to be delegated to the Section 73 Officer to sign the grant offer letter subject to the terms and conditions being satisfactory to the Authority.

An Investment Manager was recruited via a fixed term consultancy agreement to run the KAM programme, with a contract value of £89k in 2018/19. Now that there is funding certainty, it is proposed to extend the contract by a further nine months, resulting in a revised contract value of £159k which, as it exceeds £100k, requires MCA approval.

2.11 Business Case Development Fund

As noted in paragraph 2.4, the 2018/19 underspend on the core operational revenue budget is driven primarily by higher than anticipated investment income resulting from the bulk of 2018/19 LGF spend taking place at the tail end of Q4. Specifically, of the £518k underspend, £433k is in relation to surplus investment income generated predominantly from LGF held on behalf of the LEP. By default, any underspends on the core operational

revenue budget, which includes income earned, are returned to the MCA/LEP General Reserve at the end of the financial year. However, as this reserve is not earmarked for a specific purpose (other than as a general contingency as advised by the Section 73 Officer to cover risks and unforeseen costs), the MCA may wish to consider how a proportion of this year's underspend, that relating to income earned on LGF, could be invested.

One option, supported in principle by the LEP, is to invest all or some of this funding to provide additional resource with the targeted aim of supporting the acceleration and delivery of high quality business cases for the final years of the LGF programme and potentially in order to support access to other future funding sources, such as Shared Prosperity Fund (SPF) and Transforming Cities Fund (TCF). Capacity to develop business cases is frequently cited as a reason contributing to programme delays, from a range of Scheme Promoters including Local Authorities and Colleges, for example.

A resource of this nature was outlined in the SCR Structure paper to the MCA 01/18/2016 where it was proposed to create an External Capital Team to work with Scheme Promoters across a range of disciplines, infrastructure, housing, transport and skills to support business case development.

Further work and consultation with stakeholders would need to take place before this proposal could be implemented in practice.

Depending on the success of piloting this, a longer-term option could be to convert some of this resource into a revolving fund through (a) capitalisation of the first wave of development costs, and (b) contributions from other sources of funding, e.g. interest accrued on LGF loans made in 2018/19.

2.12 Treasury Outturn

The MCA is required under the CIPFA Code of Practice on Treasury Management to prepare an annual report on the performance of the treasury function, including an assessment of performance against a range of prudential indicators as set out in the 2018/19 treasury management strategy.

Members should note that the annual report covers the treasury activities of both the MCA and SYPTE, as required by the Prudential Code.

Members are also reminded that, at present, the ability to borrow is restricted to the MCA's transport functions. The MCA has no borrowing powers in relation to its economic development powers.

In summary, the MCA has performed well against all 11 indicators and achieved full compliance with the approved treasury management strategy and policies.

In particular:

- there has been full compliance with the treasury management strategy and policies approved by the MCA and with the prudential indicators
- The borrowing requirement to support capital investment plans of £12.087m is within the amount approved in the treasury management strategy and MTFS – see

indicator 2 Appendix 6

- investment performance has exceeded target contributing towards an additional £880k of investment income above budget

A brief description of each indicator, statistics showing actual vs budget performance and a narrative to explain any variances can be found in **Appendix 6** of this report.

3. Consideration of alternative approaches

3.1 The purpose of this report is primarily to note the outturn position on the MCA's 2018/19 revenue budgets and capital programme, as required under the MCA's financial regulations, hence no alternative course of action has been considered.

3.2 With regard to the budget variation requests summarised in paragraph 2.9, the MCA has the option to reject some or all of the requests. This would cause delays to a number of discrete programmes, potentially incurring unnecessary costs and running the risk of losing external funding, thus leading to an overspend on the MCA/LEP revenue budget.

4. Implications

4.1 Financial

The MCA/LEP 2019/20 budget paper presented to the MCA on 25 March 2019 emphasised that the MCA/LEP continues to depend heavily on retained business rates from enterprise zones to resource the core budget, and that it is therefore important to have a robust reserves strategy to manage these risks and provide a degree of financial resilience. The level of MCA / LEP revenue reserves at 31 March 2019 of £6.1m achieves this aim but there remain uncertainties surrounding sustainability over the medium to longer term.

Underspends on revenue programme activity and the South Yorkshire transport capital programme are being rolled forward into 2019/20 and are committed to meeting future spending plans.

4.2 Legal

This report supports the MCA meeting its responsibility under the Financial Regulations 2018 to ensure that the Authority's expenditure remains within the resources available to it.

4.3 Risk management

Action has been taken during the year working closely with partners to secure better forecasts of EZ business rates growth in the current and following year, EZ business rates growth being the main source of income supporting the MCA / LEP economic development budget.

4.4 Equality, Diversity and Social Inclusion

There are no equality, diversity and social inclusion implications arising directly from this paper.

5. Communications

5.1 None

6. Appendices

- 6.1** Appendix 1 – MCA/LEP Revenue Budget
Appendix 2 – MCA/LEP Revenue Programmes
Appendix 3 – South Yorkshire Transport Revenue Budget
Appendix 4 – South Yorkshire Transport Capital Programme
Appendix 5 – Reserves statements
Appendix 6 – Treasury outturn

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West Sheffield S1 2BQ

Other sources and references: